

### **MEMORANDUM**

**DATE**: January 3, 2005

**TO**: Members of the Mayor and Council

Subcommittee on Good Government

FROM: Karen Thoreson

Assistant City Manager

**SUBJECT**: Health Care Benefits Report

At June 14, 2004 Mayor and Council Study Session it was requested that staff generate a health care benefits report. This report looks at Tucson as compared to benchmark markets which include other local public entities as well as the Phoenix market.

Staff contracted with Mellon Consultants to conduct the survey. The City instructed Mellon to survey eleven other public entities in both Pima and Maricopa counties. The survey gathered data on both active and retiree populations. Information was collected on health care benefit plan design, rates and premiums, contribution strategies and eligibility policies.

Attached is Mellon's report. It consists of three parts: an Executive Summary, a PowerPoint presentation and Survey Questions with Detailed Survey Results.

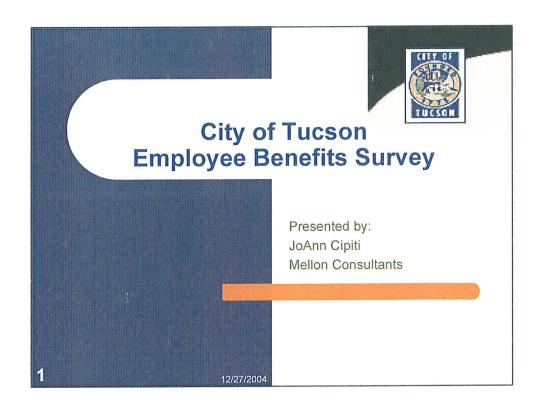
Mellon's report on the City of Tucson's benefit program summarizes the following:

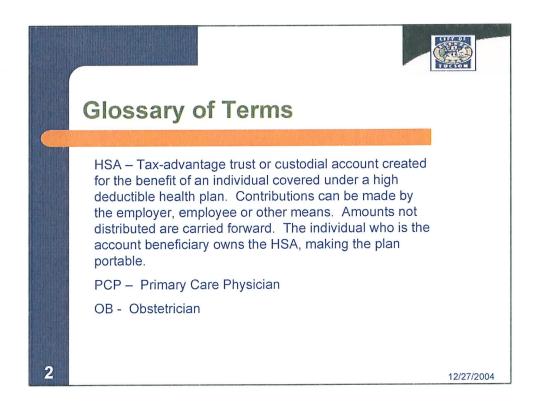
- The value for dollars spent is competitive
- It provides a quality program for actives and early retirees
- It is innovative and employs proactive planning strategies

### KT:ARS/RJL

Attachment Health Care Benefits Report

cc: The Honorable Kathleen Dunbar, Chair
The Honorable Jose Ibarra
The Honorable Fred Ronstadt
The Honorable Mayor & Council Members
Michael D. Letcher, City Manager
Todd Sander, Chief Information Officer







### **Glossary of Terms**

Alternative Funding – Minimum Premium or ASO (Administrative Service Arrangement). The client assumes more risk for claims expense; fixed costs are lower.

Consumerism/Self Directed Health Care Plan – Building benefit programs which hold employees more accountable for the health care decisions.

HRA – Tax-free health care reimbursement arrangement are funded exclusively by the Employer. Employees use the funds in the account for general health care expenses prior to using traditional health care coverage. Benefit dollars remaining in the account at year-end roll over and may be used to cover future medical costs.

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### **Method of Approach**



- Twelve entities selected (including the City)
- Written employee benefit material collected
- Web Survey Tool to each entity
- Verbal validation of collected information
- Validation with benefit material collected
- Peer Review
- Presentation

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### **Public Entities Surveyed**

- City of Glendale
- City of Mesa
- City of Oro Valley
- City of Peoria
- City of Phoenix
- City of Scottsdale
- City of Tempe

- City of Tucson
- Pima County
- Pima County Community College
- Tucson Unified School District
- University of Arizona

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### Survey should answer the following questions:



- Contribution
- Benefit Designs
- Price
- Is there a long term strategy theme?
  - Do these entities have Wellness programs?
- How often entities have changed Carriers & Why?

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### **About the Carriers**

- Carrier Trends are relatively the same
- Of the 6 entities in Pima County, 3 are insured thru PacifiCare, Oro Valley is insured thru Aetna, and 2 are alternative-funded via United
- Of the 6 entities in Maricopa County, 2-Cigna, 3-Blue Cross Blue Shield, 2-Aetna. Note: Blue Cross Blue Shield clients are alternative funding, Aetna & Cigna are insured.

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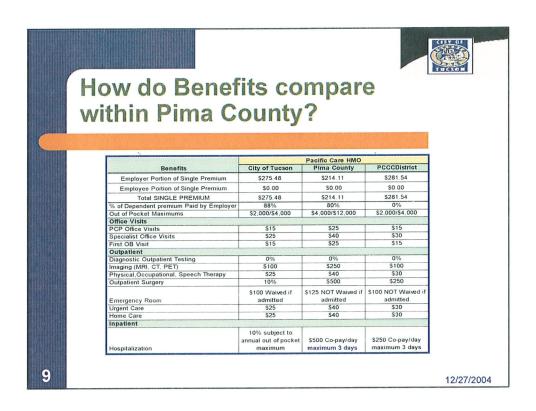
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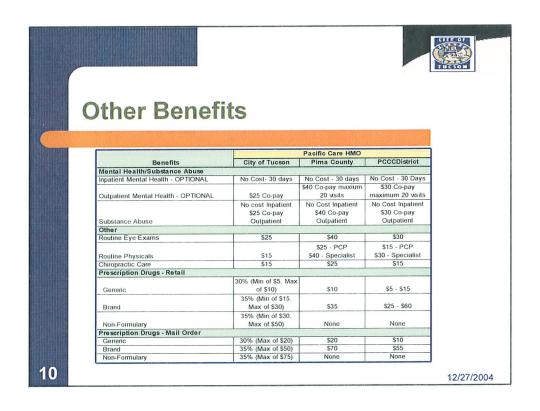


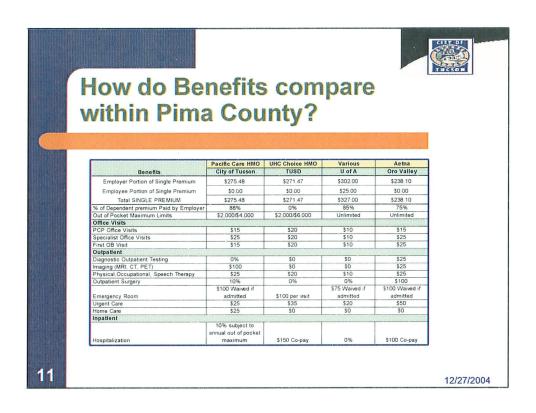
### City of Tucson is Competitive

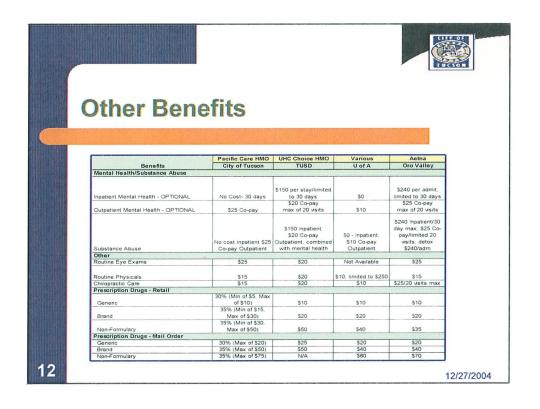
- City of Tucson is Competitive in rates, contribution & benefits for active & retirees
- Coverage for pre-65 retirees results in higher average age on City of Tucson's plan as compared to Pima County
- City of Tucson's low turnover coupled with retiree benefits means long term coverage on the City's plans
- City of Tucson is innovative and proactive in long term strategy
  - Consumerism
  - Wellness efforts

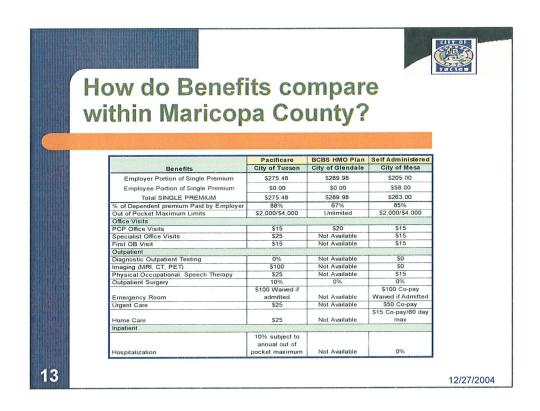
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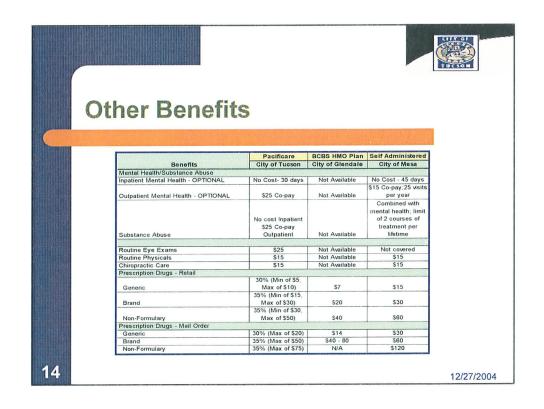


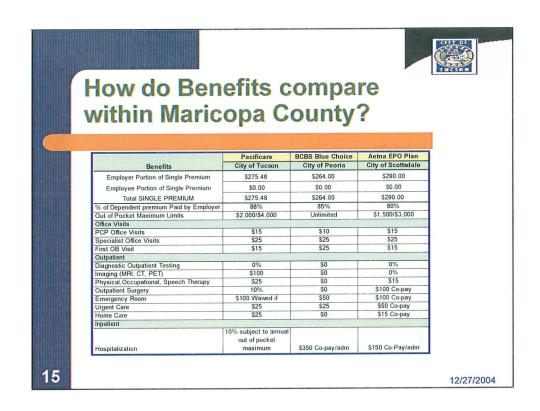


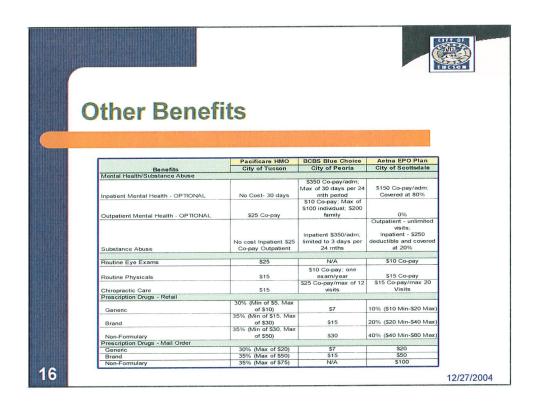


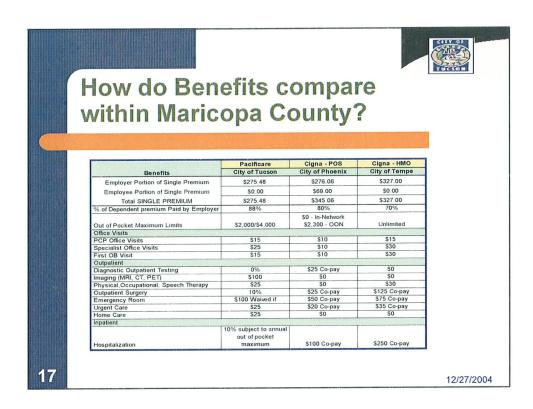


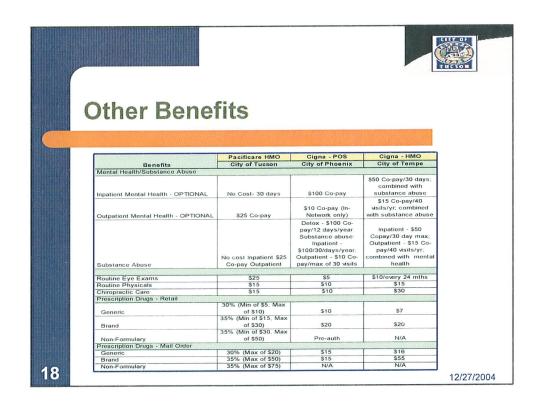


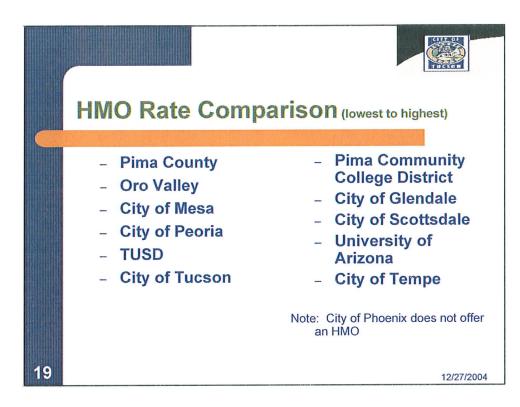












### PPO Rate Comparison (lowest to highest) City of Mesa City of Tucson City of Tempe Pima County City of Scottsdale Pima County Community college City of Peoria City of Glendale U of A **TUSD Pima Community** Note: Oro Valley does not offer a **PPO College District** 20 12/27/2004



### **Other Significant Differences**

- 5 of 6 Pima County entities offer Domestic Partner coverage. (U of A does not)
- 1 of 6 Maricopa County entities offer Domestic Partner coverage (City of Phoenix)
- All entities offer HMO products except City of Phoenix
- 10 entities offer a PPO product
- City of Tucson has an HRA (health reimbursement account) and City of Scottsdale has an HSA (health savings account)

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### **Other Significant Differences**

- Pima County, TUSD, & U of A do not fund an opt out offer. Nor does City of Glendale, Oro Valley, Peoria or Phoenix.
- Pima County does not allow the retiree to re-enter the plan if there has been a previous opt out. Nor do most other entities
- Pima County, City of Glendale, Scottsdale, & Tempe charge the same rate for pre-65 retirees as for actives.

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### What are Long Term Strategies

- City of Tucson is the only one of the 12 entities surveyed to engage in a Long Term Strategy to address future cost increases
  - Movement to Consumerism (self directed health plan) and Wellness Program
- 7 respondents are anticipating budgets increases as well as shifting costs through deductible and/or co-pay changes in plan designs
- 3 respondents are considering shifting costs to maintain current budgets

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### **Wellness Programs**

- 3 entities integrate Internal and Carrier Wellness program
  - City of Tucson
  - City of Glendale
  - University of Arizona
- 6 entities do <u>not</u> integrate Internal Wellness program with Carrier's program
- 3 entities do not offer any Wellness programs

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### **Specific Observations of Interest:**

- 11 of 12 entities indicated they have heard of Consumerism
- Most public entities are unsure of the concept of HRA's
- 9 respondents indicated they expect to budget for trend increases next year
- Maricopa County entities require higher average hours worked to be eligible for employee benefits
- 3 respondents expect to shift costs to employees
- Pima County entities expect to stay with HMO's
- Maricopa county continues to move into POS or PPO programs.
- Rates in Pima County are lower than in Maricopa County

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### In Summary, City of Tucson

- Value for Dollars spent is competitive
- Provides a quality program for active employees and early retirees
- Benefits offered are highly competitive with like entities in Pima County
- Is innovative and employs proactive planning strategies

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# SURVEY OBJECTIVE:

result of this effort were as follows: information submitted by these entities. All eleven entities responded to the survey request. The questions that were to be answered as a The City of Tucson engaged JoAnn Cipiti of Mellon Consultants to survey 11 identified public entities and compare and contrast the

- How do the surveyed entities compare in benefits and price with the City of Tucson's active and retiree's programs?
- What are the surveyed entities' contribution strategies for actives and retirees
- Is there a comprehensive long term strategy for benefit design and what is the strategy
- Are wellness programs a long-term goal?
- How often over the last 5 years the surveyed entities have changed carriers and why

enrollment and benefit coverage levels were included Rates, Program Rules, Enrollment, and Employee Benefit Strategies. A total of 53 questions were included in this survey. Tables for rates. A web tool was designed and developed to meet the project objectives. The survey tool was broken into six sections: Eligibility, Benefits,

Eleven public sector clients were selected by the City of Tucson. These respondents are identified as:

- City of Glendale
- City of Mesa
- City of Oro Valley
- City of Peoria
- City of Phoenix
- City of Scottsdale

- City of Tempe
- City of Tucson
- Pima County
- 10. Pima County Community College
- **Tucson Unified School District**
- University of Arizona

All eleven entities agreed to respond

<sup>\*\*</sup>Glossary of terms located on page 7\*\*

### **Benefits and Rates**

The City's HMO benefits and rates are competitive with the respondent's HMO plans.

\$10/20/40	-0-	Unlimited	-0-	-0-	-0-	\$10	\$327.00	U of A
	-0-	\$2,000/\$6,000	-0-	-0-	\$150		\$271.47	TUSD
\$5-15/25-60	-0-	\$2,000/\$4,000	\$250	-0-	\$250		\$281.54	PCCC District
	-0-	\$4,000/\$12,000	\$500	-0-	\$250/ day*3		\$214.11	Pima County
35%/\$50								
35%/\$30								
30%/\$10	-0-	\$2,000/\$4,000	10%	-0-	10%	\$15/25	\$275.48	City of Tucson
	-0-		125	-0-	\$250	\$15/30	\$327.00	Tempe
\$10/20/40	-0-	\$1,500/\$3,000	\$100	-0-	\$150	\$15	\$290.00	Scottsdale
		Network						
		\$2,300 Out of						
\$10/20/Pre/	30/70%	\$0 − In Network	\$25	-0-	\$100	\$10	\$345.06	Phoenix
\$7/15/30	-0-	Unlimited	-0-	-0-	\$350	\$10/25	\$264.00	Peoria
\$10/20/35	-0-	Unlimited	-0-	-0-	\$100	\$10	\$238.10	OroValley
\$15/30/60	\$15	\$2,000/\$4,000	-0-	-0-	-0-	\$15	\$263.00	Mesa
\$7/20/40	-0-	Unlimited	-0-	-0-	-0-	\$20	\$289.98	Glendale
	Co-Pay							
	Equip		Co-Pay	Deductible	Co-Pay		Premium	
	Medical	Maximums	Surgery	Hospital	Hospital		Only	
	Durable	Out-of-Pocket	Out-Patient	Inpatient	Inpatient		Employee	

## **Employer Contribution**

Employee Family % Employee	\$289.98 \$327.41	\$205 \$515 95-90%	\$238.10	\$264 \$824 100%	\$276.06 \$519.52 80%
% Dependent	66.67%	85%	75%	76% and 80%	80%
Employee	\$349	\$275.48	\$214.11	\$281.54	\$271.47
Family	\$775	\$497.89	\$351.24	0	0
% Employee	100%	100%	100%	100%	100%
% Dependent	70%	88%	81%	0%	0%

# Benefit Design Strategies

considering shifting costs to maintain current budgets. The other seven are anticipating an increase in their budgeted costs as well as shifting cost through possible deductible or co-pay changes in the plan designs. Two of the twelve entities studied are engaged in a long-term employee benefits strategy. One entity implemented a consumer driven option (City of Tucson), and one is looking at ways to manage costs while maintaining a quality program. Three of the ten remaining are

office visit benefits benefit to experience a cost shift for the majority of the entities surveyed. The second is hospital deductibles/co-pays or co-insurance, then Most of the respondents identify cost as a driving factor for change. Due to cost awareness, the pharmacy plan designs appear to be the first

comparable in benefits and rates to the other entities in Tucson. Eligibility requirements are as follows: The benefits and programs offered to employees by respondents are very similar. The City of Tucson appears to offer a program that is

- Six respondents offer benefits at 20 hours a week and five offer benefits at 30 or 40 hours per week. Respondents in the education offer benefits at a lower workweek threshold of 20 hours sector and in Maricopa County only provide benefits for those employees who work 30 or 40 hours per week. Municipalities tend to
- Elected officials are eligible for benefits in all responding municipalities.

### Wellness Programs:

with insured programs. programs administered through TPAs and Blue Cross and Blue Shield of Arizona continue to provide some wellness, however, less then those efforts. This primarily is attributed to respondent's budget and lack of infrastructure to execute. Respondents with alternatively funded aware of the importance of wellness, however, they continue to look toward the medical program to provide, initiate, and support wellness Most entities rely on carriers to provide wellness programs and managed care. A few of the entities indicate that they are becoming more

## About the Carriers:

carriers. The carriers providing coverage are shown with the corresponding entities. Survey results indicate that schools change carriers more often then municipalities. The larger the entity the less likely they are to change

		2	Aetna 3,6
		4	Blue Cross Blue Shield AZ 1,2,4,11
)-mand	Self funded TPA 12	2	Cigna 5,7
2	United Health Care 11, 12	w	PacifiCare 8,9,10

and Blue Shield of Arizona are typically underwritten on a partially self-funded basis. not insured programs and provide alternative funded arrangements. It is important to note that groups over 100 employees with Blue Cross Six entities are insured and six entities are in an alternative funded arrangement. The Blue Cross Blue Shield of AZ and the TPA vendors are

HMO plan designs. Carriers are not currently providing renewals with multiple year caps on future year rates due to unstable trends and movement from pure

Carrier trends are relatively the same in the Arizona marketplace (see Mellon's National Health Care Trend Survey Second Half 2004).

## Significant Differences:

- coverage Five of six Pima County entities offer Domestic Partner coverage. The University of Arizona does not offer domestic partner
- All respondent entities offer at least one HMO product except the City of Phoenix
- ☐ Ten respondents entities offer a PPO product.
- The City of Tucson has an HRA product and City of Scottsdale has an HSA product
- an employee of Pima County elect to opt-out, they cannot re-enter the program. Pima County, Tucson Unified School District and The University of Arizona do NOT fund an opt-out program for employees. Should
- Pima County's PPO benefits are slightly lower then The City of Tucson's and Pima Community College District's

### Retirce Medical:

- Pima County, City of Glendale, Scottsdale, and Tempe charge the same employee rate for the pre-65 retiree as for the active retiree.
- charge retirees a higher contribution rate for the medical program. The contribution is 20% of the premium or more in all cases but City of Tucson, Tucson Unified School District, The University of Arizona, City of Mesa, City of Oro Valley, and City of Peoria all
- medical coverage for retirees. Pima County, Tucson Unified School District, City of Glendale, City of Mesa, and City of Scottsdale all participate in ASRS for
- City of Tucson, Oro Valley and City of Phoenix do not participate for pension or medical benefit programs.
- Enrollment in the retiree program for participating respondents:

Post-65	Pre-65			
148	196	Glendale	City of	
1462	1529	Phoenix	City of	
0	150	Scottsdale	City of	
454	926	Tucson	City of	
162	476	TUSD		

fixed costs are lower. Alternative Funding – Minimum Premium or ASO (Administrative Service Arrangement). The client assumes more risk for claims expense;

Consumerism – Building benefit programs which hold employees more accountable for the health care decisions

may be used to cover future medical costs. general health care expenses prior to using traditional health care coverage. Benefit dollars remaining in the account at year-end roll over and HRA – Tax-free health care reimbursement arrangement are funded exclusively by the Employer. Employees use the funds in the account for

the account beneficiary owns the HSA, making the plan portable. Contributions can be made by the employer, employee or other means. Amounts not distributed are carried forward. The individual who is HSA - Tax-advantage trust or custodial account created for the benefit of an individual covered under a high deductible health plan

PCP - Primary Care Physician

OB - Obstetrician

## **CURRENT (03-04)**

### FUTURE (04-05)

	TJ TJ	Subsidy	ER	E.E.	Subsidy	ER	% ER
	į			Ì		ļ	Increase
City of Tucson	5.00%		11.17%	5.00%		14.06%	26%
Arizona State Retirement System (see note 1)	5.20%		5.20%	5.20%		5.20%	0%
City of Phoenix Retirement System	5.00%		9.17%	5.00%		9.97%	9%
Public Safety Personnel Retirement System (see note 2)							
☐ City of Tucson Police	5.00%	2.65%	9.84%	5.00%	2.65%	13.33%	35%
City of Tucson Firefighters	5.00%	2.65%	9.29%	5.00%	2.65%	14.69%	58%
<ul> <li>City of Phoenix Police</li> </ul>	7.65%		6.43%	7.65%		10.50%	63%
City of Phoenix Firefighters	7.65%		6.59%	7.65%		11.15%	69%
Pima County Sheriff	4.00%	3.65%	11.36%	4.00%	3.65%	13.69%	21%
☐ City of Mesa Police	7.65%		8.97%	7.65%		9.54%	6%
<ul> <li>City of Mesa Firefighters</li> </ul>	7.65%		6.76%	7.65%		9.04%	34%
City of Scottsdale Police	7.65%		7.77%	7.65%		8.96%	15%
<ul> <li>City of Scottsdale Firefighters</li> </ul>	N/A		N/A	N/A		N/A	
☐ City of Tempe Police	7.65%		9.73%	7.65%		11.15%	15%
☐ City of Tempe Firefighters	5.65%	2.00%	7.16%	5.65%	2.00%	8.30%	16%
Elected Officials Retirement Plan (PSPRS)							
□ City of Tucson	7.00%		13.49%	7.00%		14.54%	8%

FY 2006 rate is projected at 7.75% (a 49% increase.) NOTE #1: ASRS rates for all employers set at the same throughout the state, their rates are adjusted bi-annually. A current estimate of their

subsidy of 2.65% in addition to the normal employer rate (subsidized rates are shown at adjusted amount for employee and employer). NOTE #2: for PSPRS contributions – standard employee contribution rate is 7.65%. The City of Tucson sworn employees pay 5.00% with a

Mellon contacted each entity to validate & update the information on the contribution sheet above. ASRS was the only entity that had the update available